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January 10, 2001

David Waddell, Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, TN 37243

RE: Tennessee Regulatory Authority Proposed Amendments to Rules
1220-4-2-.01 through .42
Docket No. 00-00873

Dear Mr. Waddell:

On behalf of BellSouth Advertising and Publishing Corporation, I am enclosing with this letter comments in the above referenced docket in anticipation of the first industry workshop, scheduled for January 16, 2001.

Should you have any questions or require anything further at this time, please do not hesitate to contact me.

Sincerely,

Guilford F. Thornton, Jr.

GFT/lb

Enclosures

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE: TENNESSEE REGULATORY AUTHORITY PROPOSED AMENDMENTS TO RULES 1220-4-2-.01 THROUGH .42

DOCKET NO. 00-00873

BELLSOUTH ADVERTISING & PUBLISHING CORPORATION'S COMMENTS REGARDING TENNESSEE REGULATORY AUTHORITY PROPOSED RULE 1220-4-2-.09

BellSouth Advertising and Publishing Corporation ("BAPCO") pursuant to the September 29, 2000 Notice of Rulemaking published by the Tennessee Regulatory Authority ("TRA"), hereby respectfully submits its preliminary comments to the referenced Proposed Rules of the Tennessee Regulatory Authority as set forth below.[1] BAPCO's most significant concerns relate to the newly proposed subsection (9) of Rule 1220-4-2-.09, and will begin with comments related to this provision.

RULE 1220-4-2-.09(9)

Directories (White Pages)

I. GENERAL

With its proposed rule 1220-4-2-.09 (9) ("the Proposed Cover Rule"), the TRA seeks to do by rule what it is prohibited from doing by virtue of a stay entered by the Tennessee Court of Appeals, which prohibits the TRA from enforcing two separate orders entered by the TRA in contested case proceedings in 1998 ("the 1998 Orders").[2] The question of the enforceability of

[1] The filing of these comments is in no way intended to be construed as a submission by BAPCO to the jurisdiction of the TRA for any purposes.

[2] The "First Order" in TRA Docket No. 96-01692 was entered on March 19, 1998 and the "Second Order" in a related proceeding, TRA Docket No. 98-00654, was entered on November 2, 1998.

the 1998 Orders, and thus the legality of this Proposed Cover Rule, is presently before the Tennessee Court of Appeals in appeals that have been fully briefed and argued by the parties.[3] The Court of Appeals has stayed the Second Order, which broadly applies to AT&T, NextLink and all other "similarly situated, competitive local exchange carrier[s]," until the Court resolves the First Appeal.[4]

Just like the 1998 Orders, which have been stayed by the appellate court, the Proposed Cover Rule would require publishers of telephone directories to advertise without charge the commercial logo and name of "competitive local service providers" on the covers of their telephone directories in the State of Tennessee. The Proposed Cover Rule states:

> Telecommunications service providers publishing White Pages Directories must provide the opportunity to competitive local exchange carriers offering service within the calling scope of a directory to contract for the appearance of the competitive local service providers name and logo on the cover of such directories under the same terms and conditions as the telephone service provider provides itself.[5]

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[3] As noted above, the First Order, entered by the TRA on March 19, 1998 in *In re Petition of AT&T of the South Central States, Inc.* (Docket No. 96-01692), is the subject of a currently pending appeal styled *BellSouth Advertising & Publishing Corp. v. Tennessee Regulatory Auth.*, No. 01A01-9805-BC-00248 ("the First Appeal"). The Second Order is the subject of a currently pending appeal styled *BellSouth Advertising & Publishing Corp. v. NextLink Tennessee, L.L.C., Tennessee Regulatory Auth*, (TRA Docket No. 98-00654) No. 01A01-9811-BC-00593. The substantive legal issues presented in both appeals are the same. Accordingly, the Tennessee Court of Appeals entered an order dated January 21, 1999 consolidating the First and Second Appeals. The Court further directed the parties to brief the issues unique to the Second Appeal, while stating that "[t]he briefs heretofore filed in [the First Appeal addressing the issues common to both appeals] will constitute the parties' briefs on these issues for the purposes of this appeal." January 21, 1999 Order, at 2.

[4] By order dated January 8, 1999, the Court of Appeals granted BAPCO's motion for a stay pending appeal. Jan. 8, 1999 Order Granting Stay, at 2.

[5] For the reasons set forth herein, and in accordance with the TRA's redline policy, BAPCO submits that this proposed rule should be revised to read as follows:

> ~~(9) Telecommunications service providers publishing White Page Directories must provide the opportunity to competitive local exchange carriers offering service within the calling scope of a directory to contract for the appearance of the competitive local service providers name and logo on the cover of such directories under the same terms and conditions as the telephone service provider provides to itself.~~

Because the Proposed Cover Rule suffers from the same jurisdictional, statutory, and constitutional infirmities as the 1998 Orders, the Proposed Cover Rule will be struck down by the Tennessee Court of Appeals, in the event BAPCO is successful in the two pending appeals.[6] Further, with respect to adoption and enforcement of the Proposed Cover Rule against BAPCO, the Proposed Cover Rule is subject to, and would violate, the Stay Pending Appeal issued on January 8, 1999 by the Tennessee Court of Appeals. The stay would otherwise be frustrated and mooted by the TRA's actions.

Accordingly, BAPCO requests that the TRA voluntarily withdraw the Proposed Cover Rule, or voluntarily stay its rulemaking with respect to the Proposed Cover Rule, until a final decision is rendered by the Tennessee appellate courts. By doing so, the TRA would act in accordance with the requirements of the stay issued by the Tennessee Court of Appeals and provide for a more efficient and economical utilization of the TRA's time and resources during what will no doubt be a significant commitment of time to the overall rulemaking process now underway.

II. LEGAL ANALYSIS

A. THE TRA'S 1998 ORDERS AND THE COURT OF APPEALS STAY PENDING APPEAL

On March 19, 1998, the TRA issued the "First Order," a final order, in Docket No. 96-01692, ruling that:

> BAPCO in the publication of White pages directory listings on behalf of BellSouth [Telecommunications, Inc.] is required to comply with the directives of the Authority and the provisions of Authority Rule 1220-4-2-.15. *Further, in the publication of these directory listings on behalf of BellSouth*

[6] BAPCO incorporates herein by reference its briefs in the pending appeals and respectfully requests that the TRA take judicial or official notice of the Record on appeal in the First Appeal. The TRA already has copies of the Record. References to the Record in this document are denominated First Appeal, R. Vol. ___ at ___.

> *[Telecommunications, Inc.] which contain the listings of local telephone customers of AT&T and other competing local exchange providers, BAPCO must provide the opportunity to AT&T to contract with BAPCO for the appearance of AT&T's name and logo on the cover of such directories on the same terms and conditions as BAPCO provides to BellSouth [Telecommunications, Inc.] by contract.* Likewise, BAPCO must offer the same terms and conditions to AT&T in a just and reasonable manner.[7]

This Order provided a remedy only to AT&T. The Second Order issued by the TRA commanded BAPCO to advertise without charge the commercial logo and name of NextLink Tennessee, L.L.C. and all other "similarly situated, competitive local exchange carrier[s]" on the covers of BAPCO's telephone directories in the State of Tennessee. On November 12, 1998, BAPCO filed a Petition for Review of the Second Order ("the Second Appeal"), as well as a motion for a stay of the Second Order pending the Tennessee Court of Appeals' resolution of the First Appeal. The substantial legal questions raised by BAPCO, which are common to both appeals, include (1) whether the TRA may exercise jurisdiction over a non-utility such as BAPCO, (2) whether the TRA has any statutory authority to order such relief, (3) whether such relief "compels" speech in violation of the Tennessee and federal constitutions, (4) whether such an order is a taking in violation of the Tennessee and federal constitutions, and (5) whether the forced "co-branding" of BAPCO's telephone directories with the commercial logos of unaffiliated companies violates basic provisions of Tennessee and federal trademark law.

In light of these issues, and in light of the irreparable harm that would be visited upon BAPCO if the TRA's orders were immediately enforced, BAPCO moved the Tennessee Court of Appeals for a stay pending appeal. By order dated January 8, 1999, the Court of Appeals granted a stay to BAPCO. Order Granting Stay, at 2. The Court "determined that the [TRA]'s November 2, 1998 order should be stayed pending this court's resolution of the appeal in

[7] First Order at 9 (emphasis added).

BellSouth Advertising & Publishing Co. v. Tennessee Regulatory Auth., No. 01A01-9805-BC 00248 [the First Appeal]." Id. at 1-2. Because the Proposed Cover Rule would have the effect of implementing the TRA orders which have been stayed pending appeal -- that is, to require BAPCO to display without charge the commercial logo and name of "competitive local exchange carriers" -- the Proposed Cover Rule is directly within the ambit of the stay issued by the Tennessee Court of Appeals, and the TRA must refrain from any further rulemaking proceedings until the Tennessee Court of Appeals has had a chance to issue its ruling.

III. THE TRA'S PROPOSED COVER RULE VIOLATES APPLICABLE LAW

SUMMARY

The Proposed Cover Rule is unenforceable for substantially the same reasons set forth in the briefs filed and arguments made by BAPCO in the current appellate proceedings, and the TRA is respectfully referred thereto. The TRA has no statutory authority to implement the Proposed Cover Rule. Nor does the TRA have jurisdiction over BAPCO, which the TRA itself has previously recognized is not a public utility (First Appeal, R. Vol. XX at 68), and the TRA does not have jurisdiction over the private and non-utility function of designing and branding telephone directory covers. The TRA's effort to regulate a competitive industry, the directory publishing industry, finds no support under Tennessee law. The Proposed Cover Rule is anticompetitive, because it forecloses BAPCO's ability to contract on commercial terms with CLECs for advertising services and it allows "competitive local exchange carriers" to avoid having to procure directory services on a commercially competitive basis.

Furthermore, the uncontroverted evidence of record before the TRA in Docket No. 96-01692, as well as common experience, clearly show that the Proposed Cover Rule, because it requires co-branding (multiple brands on the cover of a single product), will foster public

confusion and mistake regarding the source of BAPCO's directory products, as well as the association, sponsorship, and affiliation between BAPCO and unrelated local exchange companies ("LECs"). This is precisely the evil protected against by federal and state trademark law. Also, because forced co-branding mandates a particular form of speech, prohibits any speech to the contrary, and results in a confiscatory "taking" of property, the TRA's Proposed Cover Rule also violates the Federal and Tennessee Constitutions. Less constitutionally-offensive means of publicizing the fact of landline telephone competition are available to the TRA, including BAPCO's voluntary statement that its directories include listings of all local exchange carriers.

A. THE TRA LACKS STATUTORY AUTHORITY TO ADOPT A RULE REQUIRING BAPCO, A NON-UTILITY, TO ADVERTISE ON ITS DIRECTORY COVERS THE COMMERCIAL LOGOS AND NAMES OF UNRELATED LOCAL EXCHANGE CARRIERS

The Proposed Cover Rule would require that BAPCO advertise the names and commercial logos of all "competitive local exchange carriers" at no charge on the covers of BAPCO's directories. The TRA, however, derives its regulatory authority from "the language of the statutes themselves [that govern the TRA]." Wayne County v. Tenn. Solid Waste Disposal Control Bd., 756 S.W.2d 274, 282 (Tenn. Ct. App. 1988). Sweeping legislation passed by the Tennessee General Assembly in 1995 concerning local competition and regulation (Public Chapter 408) addresses only one aspect of telephone directories. Tennessee Code Annotated § 65-4-124(c) requires the promulgation of new rules to "ensure that all telecommunications services providers who provide basic local exchange telephone service or its equivalent provide each customer a basic White Pages directory listing, . . ." Thus, this statute circumscribes the power of the TRA to regulate telephone directories because its sets forth and limits "the details of

the regulatory powers conferred on the [TRA]" by the general grant of regulatory authority in Tennessee Code Annotated § 65-4-104. See Franklin Light & Power Co. v. Southern Cities Power Co., 164 Tenn. 171, 189, 47 S.W.2d 86, 91 (1932). Accordingly, if the power to force a non-utility to advertise the name and commercial logo of a telecommunications services provider is not found in this statute, then such statutory power is "non-existent." See Tenn. Cable Television Ass'n v. Tenn. Public Serv. Comm'n, 844 S.W.2d 151, 159 (Tenn. Ct. App. 1992). Clearly, Section 65-4-124(c) does not provide any authority for the Proposed Cover Rule. Therefore, the TRA lacks legislative authority to promulgate the Proposed Cover Rule.

B. THE PROPOSED COVER RULE EXCEEDS THE TRA'S LIMITED JURISDICTION

1. The TRA Lacks Jurisdiction over BAPCO

The TRA's regulatory power is limited to "public utilities." TENN. CODE ANN. § 65-4-104 (Supp. 1997). Thus, before it can exercise control over BAPCO, there must be a finding that BAPCO is a "public utility." No such finding was made by the TRA in the proceedings in connection with the 1998 Orders, nor could one be made now.[8]

The TRA's authority is limited to determining whether a regulated utility's responsibility to provide basic white pages listings is fulfilled. To the extent that responsibility is not fulfilled,

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[8] A "public utility" is an entity that owns, operates, manages or controls any of the systems enumerated in the statute or "any other like system, plant or equipment, affected by and dedicated to the public use, *under privileges, franchises, licenses, or agreements, granted by the state or by any political subdivision thereof.*" TENN. CODE ANN. § 65-4-101(a) (Supp. 2000) (emphasis added). BAPCO operates under no privileges, franchises, licenses or agreements granted to it by any state agency. BAPCO is a private corporation that receives no special benefits from the State of Tennessee or any political subdivision thereof. BAPCO derives absolutely no revenue from regulated local exchange rates. As the contracts of record with the TRA clearly demonstrate, neither BST nor any LECs compensate BAPCO for publishing directories. BAPCO's revenues come primarily from the sale of advertising. See First Appeal, R. Vol. I at 12, Vol. III at 143. Thus, absent the existence of a privilege, franchise, license or agreement, it is clear that BAPCO is not a public utility. TENN. CODE ANN. § 65-4-101 (Supp. 2000); see also Memphis Natural Gas Co. v. McCanless, 183 Tenn. 635, 194 S.W.2d 476 (Tenn. 1946) (supplier of gas was public utility where it enjoyed privileges and franchises from city and county governments and where corporate charter granted authority to operate as public utility).

the TRA's only recourse is against the regulated utility. Anything further exceeds the TRA's authority.[9] Thus, the Proposed Cover Rule, to the extent it seeks to regulate publishers that are not themselves public utilities, constitutes an unwarranted, unnecessary, and unauthorized attempt to exercise regulatory control over a private enterprise.

2. The TRA Does Not Have Jurisdiction Over The Branding And Design Of Directory Covers or Advertising Carried on Such Covers.

The TRA has jurisdiction over "basic White Pages directory listing[s]." TENN. CODE ANN. § 65-4-124(c) (Supp. 2000). The Proposed Cover Rule, however, goes far beyond the provision of basic white pages "Alphabetical Listing[s]" (see existing TPSC Rule 1120-4-2-.15). Indeed, the Proposed Rule has nothing to do with directory listings. Instead, the Proposed Cover Rule seeks to regulate only the branding and design of directory covers. Even if BAPCO were a public utility, which it is not, the function of branding and designing directory covers is not subject to regulatory control. The TRA's jurisdiction over *basic listings* simply does not extend to the various editing and advertising functions involved in designing telephone directory covers.

In Smith v Southern Bell Tel. & Tel. Co., 364 S.W.2d 952 (Tenn. Ct. App. 1962), the Court held that advertising is not a public utility function but simply an instance in which a public utility acts in a "private capacity." Id. at 955-59. In support of its holding, the Smith court stated:

> It may be that a telephone company could not lawfully contract to limit its liability with respect to the actual listing of the name of its subscriber or patron in the alphabetical list of subscribers, together with the correct street address and telephone number, since it is a matter of common knowledge that telephone companies, in order to increase their

[9] See Loring v. BellSouth Advertising & Publishing Corp., 339 S.E.2d 372, 374 (Ga. Ct. App. 1985) ("Southern Bell and [BAPCO] are both wholly owned subsidiaries of BellSouth but while Southern Bell is a public utility, [BAPCO] is not a public utility and its connection with Southern Bell is not enough in itself to make the service [BAPCO] provides necessarily a public service.").

> business as a public service corporation, or public utility, acting in the capacity as a telephone company, which throughout the years has published the name, street address and the telephone number of its subscribers in a directory and which service is paid for in the regular rate charged for same, *but there is a vast difference between a public service corporation acting in its capacity as a public utility and acting outside of that capacity by contract made limiting liability for its negligence or mistakes in that type of service.*

Id. at 956 (emphasis added).

In sum, even assuming that BAPCO may be regulated as a "public utility," the branding and design of directory covers is a private -- not a public -- function.[10] The Proposed Cover Rule forcing BAPCO to advertise on covers the name and logo of all LECs has nothing to do with the public services offered by telephone companies and subject to authorized regulation, but merely enables the LECs to advertise their name brands. If any LEC enters the directory publishing business for local numbers at some later date after this forced co-branding,[11] it would be able to do so with the benefit of the TRA having compelled BAPCO to promote the LEC's logo and name.

The TRA cannot expand its jurisdiction through the establishment or interpretation of its own rules. To the contrary, and consistent with Smith, the branding and design of directory

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[10] This conclusion is supported by well-reasoned authorities from other jurisdictions concerning white pages directory covers. In Nat'l Merchandising v. Pub. Ser. Comm'n, 158 N.E.2d 714 (N.Y. 1959), for example, a company engaged in promotional advertising challenged a tariff approved by the PSC that provided that "[n]o binder, holder, insert, auxiliary cover or attachment of any kind not furnished by the Telephone Company shall be attached to or used with the directories owned by the Telephone Company . . . ." Id. at 715. The telephone companies asserted that the PSC had the power to prohibit customers from attaching directory covers containing local advertising to the front of phone directories, including directories containing basic white pages listings. Rejecting this assertion, the court held, "While this alphabetical listing in the directories is an essential public service, once a telephone company had discharged this duty, it is under no obligation to solicit advertisements for its directories . . . . [T]he commission lacks authority to prohibit, either directly or indirectly, a lawful business enterprise from competing with the telephone companies in nonpublic service areas." Id. at 716; accord New England Tel. & Tel. Co. v. Nat'l Merchandising Corp., 141 N.E.2d 702 (Mass. 1957).

[11] The evidence before the TRA in the 1998 proceedings shows that the national "1-800" directories created by a corporate affiliate of AT&T are marketed in direct competition with the "local directories" published by BAPCO.

covers is a private function not subject to regulatory control, and thus should not be the subject of rulemaking proceedings by a regulatory agency.

C. THE PROPOSED COVER RULE VIOLATES CONSTITUTIONAL PROVISIONS GOVERNING FREEDOM OF SPEECH

The Proposed Cover Rule is constitutionally infirm on multiple levels: (1) it compels BAPCO to provide a vehicle for the promotional speech of unrelated local exchange carriers; (2) it penalizes BAPCO's speech in favor of the promotional speech of unrelated local exchange carriers; and (3) it coerces BAPCO to associate with and give undeserved credit to unrelated companies for creating BAPCO's directories.

1. Requiring BAPCO to Advertise the Name and Logo of Unrelated LECs Is a Direct Infringement of Free Speech

The Proposed Cover Rule violates the First Amendment[12] because: (1) it infringes First Amendment protections; (2) no "compelling" or "substantial governmental interest" is at issue; (3) the Proposed Cover Rule is not "narrowly tailored" or "narrowly drawn" to serve any permissible governmental interest; and (4) less restrictive means already satisfy or are available to satisfy the interest. Compelling BAPCO by Rule to advertise on the cover of BAPCO's directories any unrelated LEC's name and logo, including AT&T's name and logo, is contrary to any concept of free speech, and is akin to forcing the New York Times to promote the Wall Street Journal on the front page, or forcing FedEx to promote UPS on packages.

First Appeal, R. Vol. XV at 92. The evidence further shows that the AT&T logo has already appeared on the covers of at least eleven competing local directories in Tennessee. First Appeal, R. Vol. XV at 95.

[12] The First Amendment to the United States Constitution provides that "Congress shall make no law ...abridging the freedom of speech, or of the press." This prohibition applies to state governments, e.g. 44 Liquormart Inc. v. Rhode Island, 517 U.S. 484, 489 (1996), including state utility commissions. Pacific Gas & Elec. Co. v. Public Util. Comm'n. of California, 475 U.S. 1, 16 (1986) (plurality opinion) ("Pacific Gas"). Moreover, Tennessee's protection for freedom of speech is as broad as that afforded by the First Amendment. Leech v. American Booksellers Ass'n., 582 S.W. 2d 738, 745 (Tenn. 1979). Thus, whenever the First Amendment is violated, the Tennessee Constitution is violated as well.

(a) The Proposed Cover Rule would unconstitutionally compel BAPCO to promote unrelated LECs

Freedom of speech "includes both the right to speak freely and the right to refrain from speaking at all." Wooley v. Maynard, 430 U.S. 705, 714 (1977). Forced speech in any form is constitutionally suspect and against the public interest because it risks that a speaker will choose the "safe course" and remain silent. Miami Herald Publ'g Co. v. Tornillo, 418 U.S. 241, 257 (1974). This risk is present even when the required speech may be beneficial and imposes no additional costs on the speaker. As the United States Supreme Court has held, "the First Amendment does not permit the State to sacrifice speech for efficiency." Riley v. Nat'l Fed'n of the Blind, 487 U.S. 781, 795 (1988). Thus, preserving the right to *refrain* from speaking prevents the chilling of valuable speech and thus "serves the same ultimate end as freedom of speech in its affirmative aspect." Harper & Row Publishers v. Nation Enters, 471 U.S. 539, 559 (1985).

Even subtle disincentives are incompatible with the First Amendment because they can lead to the overt suppression of speech.[13] See Miami Herald Publ'g Co. v. Tornillo, 418 U.S. at 256 (the Constitution limits restraints on speech that do not "fall into familiar or traditional patterns"). For example, the Supreme Court has made it clear that a speaker's ability to absorb the costs of a burden do not immunize the restraint from constitutional scrutiny. See, e.g., Forsyth County v. Nationalist Movement, 505 U.S. 123, 127 (1992) (striking down $100 parade fee); Simon & Schuster, Inc. v. Members of New York State Crime Victims Bd., 502 U.S. 105,

[13] The Proposed Rule violates the First Amendment even though it does not completely prohibit BAPCO from publishing directories. A state government may not "compel[] editors or publishers to publish that which 'reason' tells them should not be published." Miami Herald Publ'g Co. v. Tornillo, 418 U.S. 241, 256 (1974). In Tornillo, the Court invalidated a statute that required newspapers to allow political candidates a right-of-reply to critical editorials, even though the statute did not prohibit the newspapers from expressing their views. The requirement that BAPCO

122 (1991) (striking down "Son of Sam" law limiting criminals' ability to receive income from books about their crimes, even though "some [books] would have been written without compensation"); Minneapolis Star & Tribune v. Minnesota Comm'r of Revenue, 460 U.S. 575, 588 (1983) (striking down differential press tax even though burden on press may have been "lighter than that on other businesses").

In this case, it cannot be denied that the Proposed Cover Rule would compel BAPCO to promote unrelated LECs and their corporate affiliates. The compelled display of a commercial logo is perhaps the most direct form of compelled promotion that can exist.

(b) The Proposed Cover Rule would penalize BAPCO's protected speech

The United States Supreme Court has invalidated similar efforts by state utility commissions to impose penalties on disfavored speakers. In Pacific Gas, the Court struck down an order issued by the California Public Utilities Commission requiring Pacific Gas and Electric Company to include with its monthly bills a newsletter critical of the utility's rate-making practices. According to the plurality, the utility commission's order was unconstitutional because it "identifie[d] a favored speaker . . . and force[d] the speaker's opponent . . . to assist in disseminating the speaker's message." 475 U.S. at 15 (citations omitted). As the Court recognized, the power of a state utility commission to require a utility to disclose certain information, or even to subsidize particular messages, does not allow it to "require corporations to carry the messages of third parties, where the messages themselves are biased against or are expressly contrary to the corporation's views." Id. at 16. The order was struck down even

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advertise the logos of unrelated LECs on directory covers -- as if BAPCO and the LECs were co-authors -- is no less an intrusion into the editorial function than a compelled reply in a newspaper.

though the commission had determined that its order *would promote the objective of educating consumers.*[14]

It cannot be denied that the Proposed Cover Rule, which would force BAPCO to advertise the commercial logo of unrelated LECs, compels BAPCO to display a message that is biased against BAPCO and contrary to its views.[15] As demonstrated in Pacific Gas, the forced communication of such a message violates First Amendment protections.

If BAPCO is compelled to advertise on its directory covers the commercial logos of unrelated LECs, consumers will be led to believe that BAPCO directories are products of these unrelated companies. This confusion was clearly established by the survey evidence introduced by BAPCO in the proceedings in connection with the First Order, which demonstrated that fifty-two percent of those surveyed believed that AT&T was responsible for publishing or sponsoring a directory displaying the AT&T logo on the cover. First Appeal, R. Vol. XVII at 126. This risk of consumer confusion penalizes BAPCO by rendering its products less distinctive, thereby frustrating its branding efforts, decreasing consumer usage, and diminishing its significant advertising investment. First Appeal, R. Vol. XVII at 58. These penalties, moreover, impermissibly accrue to the benefit of BAPCO's competitors, including LEC affiliates that sell competing directory services, and other directory publishers in Tennessee and elsewhere that voluntarily display any LEC logo on their directory covers. See First Appeal, R. Vol. XVII at 58.

The Proposed Cover Rule would force BAPCO to issue what will appear to the public to be a joint publication, and a reasonable reader naturally would infer that the companies listed on

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[14] In Pacific Gas, the PUC justified its order by stating, "It is reasonable to assume that the ratepayers will benefit more from exposure to a variety of views than they will from only that of PG&E." 475 U.S. at 6.

[15] LECs' logos may say anything they wish, including negative statements about BellSouth Corporation, BST, or BAPCO.

the cover are co-authors, when, in fact, the publication is the product of BAPCO's editorial skill and investment and is BAPCO's publication alone. Where, as here, the public may erroneously assume that the sponsoring speaker (BAPCO) has *voluntarily* chosen to associate with the favored speaker (other LECs), such forced association clearly violates the First Amendment. See Hurley v. Irish-American Gay Lesbian & Bisexual Group of Boston, 515 U.S. 557, 576-77 (1995); see also Boy Scouts of America v. Dale, 120 S. Ct. 2446, 2453-57 (2000). This applies in the regulatory context even where a public utility commission arguably has a laudable objective. Pacific Gas, 475 U.S. at 18. No one would contend that the government can force an established business to list a start-up company as a co-developer of an established product even if the government contended that competition in that industry would be stimulated as a result. Moreover, the Proposed Cover Rule would place BAPCO at risk by associating its good name and goodwill with that of unrelated companies that *may* deliver poor service and inferior quality.

2. The Proposed Cover Rule Fails Under Strict Scrutiny

Under the strict scrutiny standard, the Proposed Cover Rule is unconstitutional unless it is "a narrowly tailored means of serving a *compelling* state interest." Pacific Gas, 475 U.S. at 19 (emphasis added). This rigorous standard of First Amendment scrutiny has and will again be applied by the courts for two reasons. First, regulations "that compel speakers to utter or distribute speech bearing a particular message are subject to . . . rigorous scrutiny." Turner Broad. Sys. Inc. v. FCC, 512 U.S. 622, 642 (1994). Because the Proposed Cover Rule would compel BAPCO to promote unrelated LECs, it should be subject to rigorous scrutiny. Pacific Gas, 475 U.S. at 19.

Second, the "exercis[e] of editorial discretion," whether it involves choosing cable programming, organizing a parade, or any other expressive act, is entitled to the full protection of

the First Amendment. Turner Broadcasting, 512 U.S. at 636; Hurley, 515 U.S. at 568-69. The exercise of editorial discretion includes the branding and design of directory covers, which must be appealing to persuade consumers to use the product and to attract advertising. First Appeal, R. Vol. XVII at 57. BAPCO's directory covers change from year to year in response to its judgment as to customer and advertising preferences. Id. The importance of directory cover design and the editorial discretion involved is illustrated by the fact that the directory publishing industry has an award -- the APPY Award -- that recognizes excellence in directory cover design. Id. at 58. Thus, BAPCO's exercise of editorial discretion is entitled to the full and undiluted protection under both the Tennessee and federal constitutions.

The Proposed Cover Rule fails under strict scrutiny because it is not "a narrowly tailored means of serving a *compelling* state interest." Pacific Gas, 475 U.S. at 19 (emphasis added). In the proceedings in connection with the First Order, now on appeal, the TRA described the interest purportedly served by the First Order as follows:

> This telephone directory, then, needs to be complete and as easy to understand as possible. In my opinion, the names of local providers on the cover would be helpful to consumers. This would not only serve as information, but would also promote competition by showing consumers they have a choice in service providers.

First Appeal, R. Vol. XX at 65 (comments of Chairman Greer). This is the identical "interest" pursued by the proposed rule and not a *compelling* governmental interest. The current BAPCO directories (1) are complete and easy to understand and (2) already show consumers that they have a choice in service providers. BAPCO's directory covers already inform consumers in bold print that "**[t]his directory includes customer listings for all local telecommunications companies**" and, further, lists the names of LECs in the customer guide pages. Thus, consumers are fully informed about competition in the telecommunications industry in Tennessee, and the

unsupported conclusion that the compelled advertising of the commercial logos of local exchange carriers would be "helpful" to consumers does not qualify as a compelling interest; the TRA is not permitted "to sacrifice speech for efficiency." Riley, 487 U.S. at 795, or to benefit one favored entity over another.

Second, the Proposed Cover Rule fails strict scrutiny because the TRA "can serve [its asserted] interest through means that would not violate [BAPCO's] First Amendment rights." Pacific Gas, 475 U.S. at 19. For example, as AT&T's sole witness in the proceedings in connection with the First Order, Mr. Guepe, conceded at the hearing, (1) AT&T can publish its own directory with its name and commercial logo on the cover, (2) AT&T can independently inform consumers through advertising and other means that it intends to offer local exchange service in Tennessee, and (3) AT&T and other telecommunications services providers can issue joint publications informing consumers about competition in the telecommunications industry. First Appeal, R. Vol. XV *at* 115. Thus, not only does the TRA's Proposed Cover Rule completely ignore the fact that BAPCO's current directories adequately inform consumers, it ignores the alternatives readily available to the local exchange carriers.

3. The Proposed Cover Rule Also Fails Under Intermediate Scrutiny

If a court determined that branding of directories is "commercial speech," it would be required to employ an intermediate standard of First Amendment review. "Commercial speech" is "expression related *solely* to the economic interests of the speaker and its audience." Central Hudson Gas & Elec. Corp. v. Pub. Serv. Comm'n, 447 U.S. 557, 561 (1980) (emphasis added). Speech of a "commercial character," however, enjoys full constitutional protection "when it is inextricably intertwined with otherwise fully protected speech." Riley, 487 U.S. at 796. As

demonstrated above, the branding and design of BAPCO's directory covers enjoys full Constitutional protection because it requires the exercise of editorial skill and judgment.

Even if, however, BAPCO's speech constitutes commercial speech *and nothing more*, the Proposed Cover Rule also fails under the intermediate scrutiny standard. In commercial speech cases, a four-part analysis is employed. As stated by the United States Supreme Court,

> At the outset, we must determine whether the expression is protected by the First Amendment. For commercial speech to come within that provision, it at least must concern lawful activity and not be misleading. Next, we ask whether the asserted governmental interest is substantial. If both inquiries yield positive answers, we must determine whether the regulation directly advances the governmental interest asserted, and whether it is not more extensive than is necessary to serve that interest.

Central Hudson, 447 U.S. at 566.

As to the first prong, BAPCO's directory speech certainly concerns a lawful activity and is not misleading. BAPCO's covers display the BellSouth logo owned by BellSouth Corporation. BAPCO is entitled to use this mark; the mark accurately depicts BAPCO's trade name, "BellSouth," which is part of its corporate name, "*BellSouth* Advertising & Publishing Corporation." BAPCO's directory covers then go further to accurately inform consumers that they "[i]nclude[] customer listings for all local telecommunications companies."

For the second prong, the TRA's claimed interest in promoting competition in the telecommunications industry fails as a "substantial interest" for the same reasons that it fails as a "compelling interest." Furthermore, there is absolutely no basis upon which the TRA may hinder competition in an unregulated industry, the directory publishing industry, in favor of enhanced competition in a regulated industry.

Only if a court determined that BAPCO's directory covers are "misleading" and the TRA has advanced a "substantial" governmental interest, must it then determine "whether the

regulation directly advances the governmental interest asserted, and whether it is not more extensive than is necessary to serve that interest." Central Hudson, 447 U.S. at 566.

The record evidence in connection with the First Order utterly failed to show that the First Order "directly advance[d] the governmental interest asserted":

(1) No evidence was introduced that consumers purchase local exchange service by virtue of what is displayed on telephone directory covers.

(2) Consumers are already adequately informed, through independent advertising efforts and the information already displayed in and on BAPCO's directories, that competition exists in the telecommunications industry. No evidence was introduced to the contrary.

Finally, the alternatives available to all other LECs and the TRA demonstrate that the Proposed Cover Rule is more extensive than necessary to serve the claimed interest, particularly since each can itself publish advertising or its own directories. The Proposed Cover Rule simply goes too far.

D. THE PROPOSED COVER RULE IS A CONFISCATORY TAKING IN VIOLATION OF THE TENNESSEE AND FEDERAL CONSTITUTIONS

In its charges of law in the contested case proceeding resulting in the First Order, the TRA acknowledged:

> It is not disputed . . . that BAPCO has a property interest in the telephone directories it designs and publishes, including the covers of those directories. . . . In sum, the Directors should consider whether AT&T's petition, *which seeks to require BAPCO to display the AT&T name and logo free of charge*, would result in a confiscatory taking prohibited under the Tennessee and federal constitutions.

First Appeal, R. Vol. XI at 137, Vol. XX at 31; emphasis added.

The taking issue was evaluated by the Court of Appeals in a utility context in AT&T Communications Inc. v. Cochran, No. 01-A-01-9409-BC-00427, 1995 Tenn. App. LEXIS 261, at *4 (Tenn. Ct. App. Apr. 26, 1995), which struck down a final order of the TPSC requiring AT&T

and other long distance carriers to render free service. There, the TPSC, invoking its statutory authority to fix "just and reasonable rates" for utility service, issued an order requiring all long distance telephone carriers providing intrastate service in Tennessee to provide, toll free, intra-county calling to all Tennessee customers. In striking down this order, the Tennessee Court of Appeals first noted that "no statutory provision is cited or found for requiring a utility to furnish its service to a particular customer without charge." Id. Then, citing the Tennessee Constitution, and noting that the Commission's order commanded the provision of the "particular services" of the long distance carriers, the Court held that the order resulted in an unconstitutional taking of property:

> The order of the Commission "demands" or "takes" property, not for public use, but for private use of an individual at his demand. The utility is entitled to some compensation from the member of the public receiving the benefit of the demand. The right to compensation is "property" which may not be taken without just compensation. Southern Bell Tel. & Tel. Co. v. Tenn. Pub. Serv. Comm., 202 Tenn. 465, 304 S.W.2d 640 ([Tenn.] 1957).
>
> The Constitution requires "just compensation" for services or property taken by public authority. Just compensation means compensation from the public treasury or, in the case of utilities, from the member of the public receiving the benefit. It does not mean forcing a person not benefitted to pay the compensation for the benefitted non-payer.

Id. The Court likewise held that the order violated the Fifth Amendment of the United States Constitution, as made applicable to the states by the Fourteenth Amendment. Id. (citing Dolan v. City of Tigard, 512 U.S. 374 (1994)). It is beyond dispute that the Proposed Cover Rule would require BAPCO to advertise the name and logo of unrelated competitive LECs free of charge, thus the Proposed Cover Rule would effect an unconstitutional taking.

Moreover, forced co-branding diminishes the value of the BellSouth mark by rendering it less distinctive, thereby diminishing BAPCO's significant advertising investment. Such a property interest has been recognized by Court of Appeals:

> The protection given by law to a trade-name is for the benefit of the public as well as for the protection of the owner's property right in the trade-name.

Lion's Head Homeowner's Ass'n v. White Bridge Rd. Assocs., No. 85-82-II, 1985 Tenn. App. LEXIS 3424 at *13 (Tenn. Ct. App. Aug. 28, 1985). If the Proposed Cover Rule were adopted, BAPCO would be forced to increase its advertising investment in an attempt to remedy the confusion -- in terms of consumers erroneously believing that there is an association between BAPCO and the unrelated LECs – spawned by the Proposed Cover Rule. This nothing more than a taking without compensation.

E. THE PROPOSED COVER RULE VIOLATES STATE AND FEDERAL TRADEMARK LAW AND PROMOTES MARKETPLACE CONFUSION

Under Tennessee law, the TRA must comply with "statutory provisions." TENN. CODE ANN. § 4-5-322(h). The Proposed Cover Rule, however, violates (1) statutory prohibitions against trademark usages likely to cause confusion in the marketplace and (2) statutes protecting strong, distinctive trademarks against "dilution."

1. The Proposed Cover Rule is Anticompetitive and Inefficient

The Proposed Cover Rule is fundamentally anticompetitive, harmful to consumers, and contrary to United States and Tennessee policy and law. The United States Supreme Court, after surveying trademark law and its economic underpinnings, has held that *"[t]rademarks desirably promote competition and the maintenance of product quality."* Park 'N Fly, Inc. v. Dollar Park & Fly, Inc., 469 U.S. 189, 193 (1985) (emphasis added). This is because the use of trademarks by makers of products protects the public from confusion and deception. "Modern consumer-minded courts have gone to great lengths to base their decisions in part on the ground that the public has a right to be free from confusion." I JEROME GILSON, TRADEMARK PROTECTION & PRACTICE § 1.03[8], at 1-39 (1991). The Proposed Cover Rule, which will diminish the

distinctiveness of the BellSouth mark, or falsely suggest to the public a joint venture or collaborative publishing effort with unrelated LECs, is antithetical to competition because it (1) undermines and undervalues trademarks, which otherwise foster competition and lower consumer costs; (2) will cause consumer confusion; (3) violates federal and state law by diluting and potentially tarnishing the BellSouth mark; and (4) would falsely brand a product with the names of those which are not its provider.

(a) Trademarks promote efficient competition

The Proposed Cover Rule creates inefficiencies in the market for local telephone directories and hinders effective competition. Rather than fostering competition, the Proposed Cover Rule minimizes -- or even eliminates -- the significance of branding in the directory market and thereby transforms a competitive product into a quasi-government manual. If the Proposed Cover Rule is adopted, the consumer will suffer, as will the competitive market economic incentives for product quality and innovation in Tennessee's directory market.

Because consumers look for trademarks, such as BellSouth (or AT&T), to *differentiate* products, trademarks serve two critical market functions: (1) encouraging producers to produce quality goods using the marks; and (2) reducing consumers' costs of choosing products, in this case, directories. See I J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION § 2:3, at 2-3 (4th ed. 1999). Simply stated, consumers rely on a mark when making decisions to select products. A negative experience with a particular brand will result in reduced future sales.[16]

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[16] One leading commentator describes these functions as follows:

> To consumers, trademarks play a vital role. They permit the selection of products or services which are desired *and the avoidance of those which are not.* The law of trademarks operates in part to guarantee consumers freedom of choice by assuring that they are not confused or deceived by an array of similar trademarks.

1 JEROME GILSON, supra, §1.03[5], at 1-31 (1999) (emphasis added).

Correspondingly, because producers are aware of this consumer dynamic, they have incentives to brand and to create quality products, and to improve products.

Encouraging producers to identify *their own* goods with *their own* trademarks is central to fair and efficient competition. Congress, in adopting the federal Lanham Trademark Act, concluded:

> Trade-marks . . . are the essence of competition, because they make possible a choice between competing articles by enabling the buyer to distinguish one from the other. Trade-marks encourage the maintenance of quality by securing to the producer the benefit of the good reputation which excellence creates. To protect trade-marks, therefore, is to protect the public from deceit, to foster fair competition, and to secure to the business community the advantages of reputation and good will by preventing their diversion from those who have created them to those who have not.

S. REP. No.1333, 79th Cong., 2nd Sess. 4 (1946), *reprinted in* 1946 U.S.C.C.A.N. 1274, 1275; see also Levi Strauss & Co. v. Blue Bell, Inc., 632 F.2d 817, 821 n.5 (9th Cir. 1980) ("[T]he [Levi's] pocket tab trademark gives the public a reliable indication of source and thus facilitates responsible marketplace competition.").

(b) The Proposed Cover Rule Gives LECs a "free ride" at BAPCO's expense

Both federal and Tennessee law protect trademarks against misappropriation by competitors who would like to profit from advertising expenditures that they did not make. It is a "principal concern" of trademark law "to protect the investment of producers in their trade names to which goodwill may have accrued and which . . . free-riders may attempt to appropriate by using the first producer's mark." Dunkin' Donuts Inc. v. Mercantile Ventures, 22 U.S.P.Q.2d 1721, 1727 (W.D. Tex. 1992), aff'd relevant part, 19 F.3d 14 (5th Cir. 1994). See also TENN. CODE ANN. § 47-18-104 (Supp. 1997).

The BellSouth mark is a valuable asset to BAPCO and a well-known and well-respected mark in the directory marketplace – and in other areas of advertising and publishing -- because of the considerable financial investments by BAPCO. "Achieving fame for a mark in a marketplace where countless symbols clamor for Public attention often requires a very distinct mark, enormous advertising investments, and a product of lasting value." Kenner Parker Toys Inc. v. Rose Art Indus., 963 F.2d 350, 353 (Fed. Cir. 1992). BAPCO has developed a distinctive mark in its line of business, which is of lasting value. If consumers believe that unrelated LECs are responsible, even jointly, for BAPCO's directory, then those LECs would be "taking a free ride on [BAPCO's] mark and reputation by deceiving customers as to source and quality." 1 J. THOMAS MCCARTHY supra, § 2:4, at 2-6. As noted in a leading treatise, "[i]f all may take a free ride on the successful seller's mark and reputation, there is no incentive to distinguish one's own goods and services." Id. The Proposed Cover Rule requiring advertisement of unrelated LECs' names and logos on goods they did not produce "violate[s] the core purpose of the Lanham Act to prevent the newcomer or 'free rider' from unfairly capitalizing on another's innovation and development." Hartford House Ltd v. Hallmark Cards Inc., 647 F. Supp. 1533, 1540 (D. Colo. 1986), aff'd, 846 F.2d 1268 (10th Cir. 1988).

AT&T, for example, with its considerable resources, does not need this free ride. The Proposed Cover Rule is not necessary for AT&T to overcome any barrier to entry created by the BellSouth mark. As AT&T conceded at the hearing in connection with the First Order, (1) AT&T is free to publish its own local directories and (2) AT&T is free to contract with a third party to produce a directory with the AT&T logo, as an affiliate of AT&T currently does with its "1-800" directory. First Appeal, R. Vol. XV at 92, 115. AT&T is also free (as it currently does)

to contract with BAPCO to produce a directory and purchase prominent advertising in the BAPCO directory. First Appeal, R. Vol. XVI at 39.

Competition in the directory market, as in other markets, benefits consumers. As a result of this competition, BAPCO has created innovative directory products by including "value added" material in its white pages directories, such as (1) attractive front covers (often tied to particular locales); (2) public service information, such as zip codes and community programming notes; (3) service information for each LEC, including connection and repair information; (4) numerous listing options for business; (5) advertising in the directory and on the back cover; and (6) alternative formats, such as CD-ROM and Internet directories. First Appeal, R. Vol. XVI at 39.

All of these enhancements demonstrate the value of rewarding "branding" and trademark protection as a mechanism for encouraging quality and innovation. Certainly the minimum expectation for any telephone directory is that it be comprehensive and accurate. However, that goal is a minimum threshold, and should not be the maximum, and consumer-oriented innovation will not result when free riders not only are permitted but encouraged by unwarranted regulatory action. The Proposed Cover Rule is an unlawful step backward.

2. Forced Co-Branding Will Cause Confusion Over Directory Source

(a) Trademark use that causes confusion is prohibited by state and federal law

Both federal and Tennessee laws protect against trademark uses likely to cause confusion in the marketplace.[17] Tennessee public policy, moreover, is squarely against the Proposed Cover

[17] Section 32 of the Federal Lanham Act, for example, provides that:

> Any person who shall, without the consent of the registrant, use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution,

Rule. The Tennessee Consumer Protection Act, TENN. CODE ANN.§ 47-18-104 (Supp. 1997), prohibits "unfair deceptive acts or practices affecting the conduct of any trade or commerce," which includes, among other things, "falsely passing off goods or services as those of another, causing likelihood of confusion as to source, sponsorship, approval or certification of goods or services; [or] causing likelihood of confusion as to affiliation, connection or association with . . .another."

Courts repeatedly have observed that "the public interest in preventing confusion around the marketplace is *paramount*...." Coach House Restaurant, Inc. v. Coach and Six Restaurants Inc., 934 F.2d 1551, 1554 (11th Cir. 1991). As the Tennessee Court of Appeals has held, "[t]he protection given by law to a trade-name is for the benefit of the public as well as for the protection of the owner's property right in the trade-name." Lion's Head Homeowner's Ass'n v. White Bridge Rd. Assocs., No. 85-82-II, 1985 Tenn. App. LEXIS 3424, at *13 (Tenn. Ct. App. Aug. 28, 1985). The important relationship between this compelling public interest and respect for trademark rights is well-recognized:

> In the consideration of evidence relating to trademark infringement, therefore, a court must expand the more frequent, one-on-one, contest-between-two sides, approach. A third party, the consuming public, is present and its interests are paramount. Hence, infringement is found when the evidence indicates a likelihood of confusion, deception or mistake on the part of the consuming public . . . . *A 'trademark' is not what is infringed. What is infringed is the right of the public to be free of confusion and the synonymous right of a trademark owner to control his product's reputation.*
>
> Interested businessmen may sue for trademark infringement in the course of protecting their pocketbook. But it is one of the geniuses of what has been called

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or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action. . . .

15 U.S.C.A. § 1114(1) (West 1997 & Supp. 2000). Section 43(a) of the Act and Tennessee law provide similar protection against the infringement of unregistered marks. 15 U.S.C.A. § 1125(a) (West Supp. 1997). Century Homes of Knoxville, Inc. v. Associated Sunbelt Realtors, Inc., 621 S.W.2d 756 (Tenn. Ct. App. 1981).

> the 'free enterprise' system (but which, in its proper operation, might be better described as 'consumer-choice' system) that the interests of the consuming public and of the entrepreneur are to the maximum extent paralleled. Thus the public need not rely wholly on government for protection against confusion, and need not pay the taxes such reliance would entail.

James Burrough Ltd. v. Sign of Beefeater, Inc., 540 F.2d 266, 274-75 (7th Cir. 1976) (emphasis added)

(b) The Proposed Cover Rule inevitably will produce confusion

The traditional standard for trademark infringement under both Tennessee and federal law is "likelihood of confusion."[18] As for the Proposed Cover Rule, requiring that two or more logos be used simultaneously on the same products is by definition likely to cause confusion as to source, sponsorship, or affiliation.[19] If AT&T, as an example, issued an unauthorized directory bearing the BellSouth mark, its liability for trademark infringement would be an "open and shut" case.[20]

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[18] "Likelihood of confusion" factors include (1) strength of plaintiffs' mark; (2) relatedness of the goods; (3) similarity of the marks; (4) evidence of actual confusion; (5) marketing channels; (6) degree of purchaser care; (7) defendant's intent; and (8) likely expansion of the product lines. Wynn Oil Co. v. Thomas, 839 F.2d 1183 (6th Cir. 1988); see also Men of Measure Clothing, Inc. v. Men of Measure, Inc., 710 S.W.2d 43, 48 (Tenn. Ct. App. 1985) ("likelihood of confusion" is the test under "federal law, Tennessee common law [and] general principles of trademark law").

[19] In addition to this obvious "likelihood of confusion," the presence of the AT&T logo in particular on BAPCO's directories will cause what is known as "reverse confusion." As articulated in the Western Electric decision implementing the consent decree, dual use of "Bell" marks by AT&T and the regional holding companies was prohibited because it "inevitably suggests that each of the Operating Companies provides service in a particular region of the country while AT&T provides the national service which ties all of the components together into one integrated Bell System." United States v. Western Elec. Co., 569 F. Supp. 1057, 1075 (D.D.C. 1983). In other words, consumers associate the AT&T logo with any type of "Bell" company or logo, and believe that a relationship (generally with AT&T as the controlling entity) exists. As demonstrated by the survey evidence introduced by BAPCO in the proceedings in connection with the First Order, a much higher percentage of consumers believed that AT&T was responsible for publishing a directory with the AT&T logo on the cover (52%) than MCI (35%). First Appeal, R. Vol. XVII at 120. This is especially harmful to BAPCO because, among other reasons, AT&T is found on the cover of at least eleven directories that compete with BAPCO directories in Tennessee, R. Vol. XVII at 94-96.

[20] The United States Court of Appeals for the Sixth Circuit has noted that "cases where a defendant uses an identical mark on competitive goods hardly ever find their way into the appellate reports. Such cases are 'open and shut' and do not involve protracted litigation to determine liability." Wynn Oil Co. v. Thomas, 839 F.2d 1183, 1191 (6th Cir.

The public will thus believe that a link exists between BAPCO's products and those of its competitors, and will be deceived into believing that it makes no difference which directory products they invest in as advertisers or use as consumers. The marketing of directory services is directly tied to consumer usage. First Appeal, R. Vol. XVII at 59. The Proposed Cover Rule, therefore, will frustrate BAPCO's marketing efforts.

Such reverse confusion, like any consumer deception, is actionable and against public policy. See, e.g., Ameritech, Inc. v. American Info. Tech. Corp., 811 F.2d 960, 966 (6th Cir. 1987). The public should not be misled into believing that BAPCO is affiliated with unrelated LECs, with the result that BAPCO now "loses the value of the trademark - its product identity, corporate identity, control over its goodwill and reputation, and ability to move into new markets." Id. at 964.

(c) The compelled advertising of unrelated LEC logos would dilute and tarnish the BellSouth mark

Both federal law and Tennessee law protect against trademark "dilution." The Tennessee anti-dilution statute provides that *"[l]ikelihood of injury to business reputation or of dilution of the distinctive quality of a mark . . . shall be a ground for relief, notwithstanding . . . the absence of confusion as to the source of goods."* TENN. CODE ANN. § 47-25-512 (1995). Federal law likewise protects well-known marks against "dilution." 15 U.S.C.A. § 1125(c)(1) (West 1997 & Supp. 2000). Both Tennessee law and federal law mandate that trademarks must be protected against both (1) dilution, or whittling away of distinctiveness; and (2) tarnishment, or injury to business reputation, even absent public confusion.

1988); see also Reflange, Inc. v. R-Con Int'l, 17 U.S.P.Q.2d 1125, 1131 (T.T.A.B. 1990) ("[C]onfusion between identical marks used for identical goods is inevitable.").

The BellSouth mark is distinctive. By forcing an association between BAPCO and unrelated LECs, the Proposed Cover Rule results in the dilution of the BellSouth mark. Even without actual confusion, BAPCO would be deprived of its right to control its own reputation, and the public's view of BAPCO directories would be subject to the unrelated LEC's reputation as well. Courts have recognized that this "borrowing" of goodwill constitutes irreparable injury:

> [A merchant's] mark is his authentic seal; by it he vouches for the goods which bear it; it carries his name for good or ill. *If another uses it, he borrows the owner's reputation, whose quality no longer lies within his own control. This is an injury, even though the borrower does not tarnish it,* or divert any sales by its use; for a reputation, like a face, is the symbol of its possessor and creator, and another can use it only as a mask.

Yale Elec. Corp. v. Robertson, 26 F.2d 972, 974 (2d Cir. 1928) (emphasis added).

The Proposed Cover Rule also threatens to tarnish the BellSouth mark. If the logo of unrelated LECs is forced onto BAPCO directory covers, subsequent events putting any of those LECs in a bad light also would affect BAPCO and the BellSouth mark. In that way, BAPCO is subject to the same threat that caused the court to enjoin a third party from using the term MASTER'S for a non-golf sporting event, namely the risk that permitting the second comer to "reap [ ] where it has not sown" means that its "sins . . . will be 'visited upon"' the senior user. Augusta Nat'l, Inc. v. Northwestern Mut. Life Ins. Co., 193 U.S.P.Q. 210, 220-21 (S.D. Ga. 1976). Thus, the Proposed Cover Rule violates governing statutory provisions of Tennessee and federal trademark and unfair competition law. TENN. CODE ANN. § 4-5-322(h) (Supp. 1997).

III. CONCLUSION

For the reasons set forth above and in BAPCO's briefs and arguments in the pending appeals before the Tennessee Court of Appeals, the Proposed Cover Rule, if adopted, is bad

public policy, anti-competitive, and harmful to Tennessee consumers. Moreover, it is likely to be struck down by the courts, and, because the Proposed Cover Rule as it affects BAPCO is identical in substance to the TRA orders now on appeal, the Proposed Cover Rule is subject to the Stay Pending Appeal issued on January 8, 1999 by the Tennessee Court of Appeals.

Accordingly, BAPCO respectfully requests that the TRA voluntarily withdraw the Proposed Cover Rule, or voluntarily stay its Rulemaking Proceedings with respect to the Proposed Cover Rule until a final decision is rendered by the appellate courts. Such restraint on the part of the TRA will allow the TRA to act in accordance with the terms of the Tennessee Court of Appeals' decision and will provide for a more efficient and economical utilization of the TRA's time and resources during what will no doubt be a significant commitment of time to the rulemaking process now underway.

RULE 1220-4-2-.09(1)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(1) Telephone directories shall be published ~~annually~~ regularly and shall contain at a minimum the name, address and telephone number of all customers, except public telephones and those customers who have informed the Telecommunications Service Provider to not list their information.

The changes suggested above are taken from the existing rule, which BAPCO submits more appropriately addresses two issues.

First, directories can, and periodically must, vary from a strictly annual publishing cycle. Issues such as the introduction of new area codes, changes in extended area service, changes in printing cycles and combining or splitting directories can each cause a directory to vary from an annual publishing cycle. Most such changes are only a matter of days or weeks. Use of the term "regularly" in the existing rule is thus more accurate and has not resulted in any confusion or issue in the many years that it has been in place. If the word "annual" were substituted as proposed, the TRA could find it necessary to amend the rule each time a change in publication dates is made.

As directories begin to be published in electronic media, which is already the case in some areas, they can be updated more often, rendering the "annual" concept outdated. Such developments could even reduce the need for yearly publication of some directories. For these reasons, BAPCO submits that the term "regularly" best gives the TRA the flexibility to adjust situations as needs warrant.

Secondly, BAPCO suggests that the reference to "public telephones" contained in the existing rule remain. There seems to be no need to change the existing practice of not publishing the listings for such lines unless requested by the subscriber.

Rule 1220-4-2-.09(2)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(2) All ~~telecommunications service providers~~Telecommunications Service Providers shall ~~provide~~ make available free of charge to ~~its~~ their customers a white page telephone directory ~~encompassing the local calling area~~for the area where the customer is located.

Directories for areas outside the local calling area shall be ~~provided~~ made available to the customer for a reasonable cost.

The TRA recently adopted an extended area local calling plan that, in many instances extends beyond the areas covered in local directories. Very few customers of any LEC have requested receipt of directories other than as published for the community they live in. For cost and environmental reasons, it is most appropriate and consistent with customer preferences for directories outside such communities to be made available upon request, as suggested above. Allowing for a reasonable charge, as proposed, reduces any incentive for customers or their LEC to request copies not truly desired.

Rule 1220-4-2-.09(3)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(3) ~~In the event of a Telecommunications Service Provider listing error for the omission of a customer listing, the Telecommunications Service Provider shall provide an intercept service along with directory assistance for all calls made to the omitted number, upon the request of the customer, for up to one (1) year at no charge or until the publishing of a new White Page Directory.~~ In the event of an error in the listed number of any customer, the Telecommunications Service Provider shall intercept all calls to the listed number for a reasonable period of time, provided existing central office equipment will permit and the number is not in service. In the event of an error or omission in the listed name of a customer, such customer's correct name and telephone number shall be in the files of the

information or intercept operators and the correct number furnished the calling party either upon request or interception.

As proposed, this rule confuses two types of errors that each require significantly different resolutions. Intercepts generally provide no benefit when an error occurs in a listed name and could compound the inconvenience to the customer since the customer's assigned number would need to be changed to accommodate the intercept. Instead, directory assistance should be provided with the corrected listing, as set out in the existing rule and as suggested above. Intercepts are appropriate for a reasonable period of time, as the existing rule states, when errors occur in listed numbers.

Rule 1220-4-2-.09(4)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(3) The Authority's toll-free telephone number and Internet address shall be listed ~~on~~ in the ~~inside cover~~front section of the directory. Telecommunications Service Providers shall not charge the authority for the listing of the above information.

The inside cover of directories in Tennessee is often sold as advertising for interested businesses in the area for which the directory is published, while the first page and subsequent section is reserved for, and most often used by consumers to find, general information, such as that called for in the proposed rule. BAPCO recommends that the TRA not engage in a potential taking of valuable advertising space and suggests that the TRA's information should be published in the front section of the directory, where a consumer would look first.

Rule 1220-4-2-.09(5)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(5) Telecommunications ~~service providers~~Service Providers shall provide the Authority, upon request and without charge, at least one (1) copy of its directories at the time of publication.

Under the existing rule, the TRA has requested directories and replacements as needed. BAPCO recommends that the existing practice remain in place. As directories become available in electronic formats such as CD-ROM for use on computers or servers, the TRA may prefer these alternatives to the burden of storing and managing all print directories. The language set out above would allow for this alternative, while allowing the TRA to request copies as needed and without charge.

Rule 1220-4-2-.09(6)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(6) Telecommunications Service Providers shall provide local directory publishers with relevant informatio for publication ~~The directory shall contain such instructions~~ concerning placing local and long distance calls, calls to repair, calls with regard to billing questions as well as information services, and the mailing address of the ~~telecommunications service provider.~~Telecommunications Service Provider.

In today's competitive marketplace, LECs generally arrange with existing directory publishers for directories to go to their customers, rather than each publish directories as the

proposed rule seems to assume. BAPCO provides this service to LECs in the areas where BAPCO publishes. We also offer pages in the front section of its directories at a reasonable cost for these LECs to publish relevant information, such as that called for by the proposed rule. The rule need only call upon LECs to provide "relevant information" as desired for directory publishing. Depending on the services offered by the LEC, this could be substantially more than the information called for by the proposed rule.

Rule 1220-4-2-.09(7)

For the reasons stated below, BAPCO submits that this proposed rule should be revised to read as follows:

(7) The area included in the directory along with the month and year of the issuance of or the intended period of use for the directory shall appear on the cover of the directory. Information pertaining to emergency calls such as for the police and fire department shall appear conspicuously in the front section of the directory.

BAPCO has long published the phrase, "Use Until...", followed by a date on the covers of its directories and has found this phrase to be more useful to the consumer, particularly since users do not always discard old directories immediately upon receipt of a new issue. The suggested change above would accommodate this helpful practice without requiring all publishers to change their own practices.

Conclusion

For all of the above reasons BAPCO submits its suggested changes to the note proposed rules. These comments should be considered preliminary and may be supplemented with final written comments at the time provided for by the TRA.

Respectfully submitted this 10th day of January 2001.

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